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June 2018 Quarterly Portfolio Manager Commentary

Antoine Natale, CIM

After a difficult and volatile first half of the year, North American markets improved in the second quarter. Year to date, returns are positive, but still not caught up to the highs reached at the end of January. The S&P500 was up 1.67% as of June 30th while the TSX has rebounded from its losses with rising oil prices to reach 0.42%.

Despite several positive aspects, economic growth has slowed, but it remains quite good by post-financial crisis standards. In fact, the current cycle is extending its duration on many aspects and we could be facing more rate hikes as central banks push towards a normalization of the monetary policy.

Volatility

Despite the markets' rebound this spring, volatility remains higher than it was at the beginning of the year. There is normally a correlation between the decline in markets and the increase in volatility. Although the S&P500 was up 1.67% in the first half of the year, the ride was not smooth but more like a roller coaster's ups and downs, resulting in the Volatility Index (VIX) rising from 11.04 at the beginning of the year to 16.09 at June 30.

In our portfolios

We continue to invest in companies with dividend payouts and strong balance sheets, favoring industry leaders with reasonable valuations. While we are seeking to reduce exposure to industries sensitive to the trade war, we can't avoid certain sectors like the consumers discretionary and industrials sectors. Our latest additions, BRP Inc and United Technologies Inc witch we bought last year, have so far maintained their growth trajectories without being affected by the tariffs.

Like many other companies, BRP has moved some of its production to other countries (Texas, USA) to avoid its products to be taxed in the United States. Many companies will consider potential mergers and acquisitions to fulfill this objective, adding to an already active corporate actions activity. The number of M&As are elevated relative to history, but while markets are producing plenty of potential investment opportunities, we need to focus on investments with the best risk/reward profile that offer a low likelihood of a permanent loss of capital.

The 2nd quarter was a great time to take some profits in companies that had reached high valuations with little or no growth potential. We sold Boston Scientific Corp and Lamb Weston and replaced them with Anthem and Express Scripts Holdings to reduce risks from the current trade dispute and to invest in an industry that has the potential for consolidation trough merger and acquisitions.

In the Income Mandate, with the same objective in our minds, we have sold Premium Brands Holdings and bought TMX Group. TMX Group is the company behind the Toronto Stock Exchange, The Montreal Exchange and the Vancouver Exchange. Like most other investments in our different mandates, TMX Group exhibits a strong competitive advantage,

Sources: Bloomberg LLC, Reuters

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with a defined business plan that extends not just for the next few quarters but for the next 5 years.

Performances

Performances for the 2nd quarter were above benchmarks for most mandates, including the Income Mandate. The best performing Mandate for the 3 months period ending on June 30th, 2018 was the Equity portfolio. It achieved a 7.89%[1] return, compared to 2.44% for the S&P500 and 4.52% for the TSX Composite. The YTD performance stands now at 8.08%[1], compared to 1.18% for the S&P500 and -0.91% for the TSX Composite (all figures are in local currencies).

Sincerely yours,

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[1] Performance before management fees.
[1] Like any investment, investments in mutual funds and management mandates carry a risk. There is no guarantee that a fund or portfolio will achieve its investment objectives. Asset value, share performance and returns on your investment can vary over time, depending on market conditions.
[1] The performance rates indicated herein represent total performance for the indicated period

Sources: Bloomberg LLC, Reuters